

From our Chair.....

The past year has been an eventful one for the Department of Economics. First, we joined the College of Social Science in July of 2001, and over the intervening period we have seen our number of undergraduate majors grow from 150 to 400, with more choosing to become Economics majors each week. Both our undergraduate and graduate courses are oversubscribed. We are attempting to meet this demand without sacrificing quality. To date, we have done just that.

Second, the first endowed chair, the Frederick S. Addy Distinguished Chair in Economics, has been established for the Department. Once fully funded, we intend to fill it with an economist of the highest calibre with a keen interest in undergraduate instruction, in fulfillment of the wishes of Fred and Marilyn Addy.

Third, Randall L. Pittman, member of the MSU Board of Trustees, and his wife, Mary, have given \$6 million for the renovation and renaming of Marshall, now Marshall-Adams, Hall. Mr. Pittman chose to rename the building in honor of Walter Adams, who he identifies as the faculty member at MSU who had the most significant effect on his career.

Fourth, we had a very successful recruiting season and hired three new assistant professors: Luis Araujo, a monetary search theorist from the University of Pennsyl-

Our first E-Newsletter...

With this issue, we are sending out our first electronic newsletter. We hope to keep in touch with as many people as possible that have been part of our department – as students, faculty or visiting faculty or scholars. Please feel free to email your news to share with our cyberspace community. We hope to feature as many of you as possible as time goes by.

vania, Raoul Minetti, a specialist in macroeconomics and financial intermediation from the London School of Economics, and Steven Haider, a labor economist from the University of Michigan by way of RAND Corporation. All three are excellent additions to the Department. Unfortunately, Wally Mullin chose to leave MSU for George Washington University.

With the good there also comes the bad. Because of significant State budget shortfalls, a mid-year budget cut of five percent is anticipated. Next fiscal year's cuts, also anticipated to be in the five to seven percent range, may require loss of positions, an outcome we care not to contemplate as we continue in our efforts to rebuild and further strengthen the Department. We have confidence that the Department will weather this budget crisis as successfully as we did in the past.

We hope to bring you news of the Department twice a year from now on. We would also like to hear from you and relay your news to other alumni. Please send your news to Margaret Lynch at lynchma@msu.edu

Rowena A. Pecchenino

November, 2002

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Study shows students score higher in classroom than in online course

By Kristan Tetens

A study conducted by two MSU economics professors found that students in a virtual economics course performed significantly worse on examinations than their counterparts in the live sections.

The professors suggest that online courses are better at teaching basic concepts than they are at developing complex analytical skills and that students who are considering taking such courses should carefully weigh both the advantages and disadvantages of the online format.

“These results differ sharply from the vast majority of studies in the education field that continue to claim there is no significant difference between live and virtual courses,” said Carl Liedholm, one of the study’s authors.

In the study, to be published this spring in *American Economic Review*, Liedholm and Byron Brown compare student performance in their “Principles of Microeconomics” course taught during the 2000-01 academic year.

Two sections of the course were taught live in the classroom. The course was offered twice in a virtual format and once in a format that combined classroom instruction with online materials.

The virtual format included a wide variety of online learning tools and activities, including streaming video of classroom lectures with synchronous



Photo by G.L. Kohuth

Carl Liedholm (above) and Byron Brown, professors of economics, are co-authors of an article to be published this spring in American Economic Review. In the article, Liedholm and Brown compare student performance in their “Principles of Microeconomics” course taught during the 2000-01 academic year in three different formats: classroom, online and a combination of the two.

viewing of texts, enabling the online students to see and hear the same lectures as students in the classroom. Performance on 37 questions common to all the students’ examinations was compared.

“Although virtual courses seem to be effective in helping students learn basic concepts, they are less successful at helping students learn how to apply those concepts on problems that require analytical thinking” said Brown. “Students in the classroom did significantly better than the online students on the most complex material.”

This was found to be true even though the students taking the course online had significantly higher ACT comprehensive scores and had completed more credits toward graduation than the students in the classroom sections.

The researchers speculate that this result may reflect the benefits and importance of the direct student-teacher interactions that occur in live classes. The better performance of the students in face-to-face classes could also be due to differences in student effort.

“We found that those students spent more time on the course than their virtual

class counterparts,” said Liedholm, “so it is possible that this added effort contributed to their superior performance on problems requiring in-depth analysis.”

However, one group – female students – seemed to benefit from the online format.

“Women were at a significant disadvantage in the live sections of the course, where they scored almost six percentage points lower than male students on the examination,” said Brown.

There was no significant difference in test performance between men and women taking the course online.

“This finding is consistent with previous research showing that many women perform better in online courses than they do in the same courses taught in a classroom,” said Brown.

“Classroom dynamics favor students who can come up with a correct answer or observation quickly,” he said. “The virtual setting removes that pressure and seems to promote achievement across a variety of learning styles.”

Although men and women performed at similar levels in the online course, those levels were still well below the performance of students in the live course.

“Students need to know that there are important differences between live and virtual classes,” said Liedholm, “Doing as well in an online course as in the live alternative seems to require extra work or discipline, especially

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when it comes to learning the more difficult concepts.”

Liedholm and Brown plan to continue teaching the online sections of their course and may add tips on time allocation to the syllabus.

“For a certain subset of students, including those who are highly motivated and those who need the convenience of accessing the course from off-campus, online education serves a definite need,” Brown said.

“For others, classroom instruction will remain the best delivery system,” he said. “Students need to think about their own learning styles and make course choices accordingly.”

An article about this research appears in the Chronicle of Higher Education on the Web at: <http://chronicle.com/free/2002/02/2002022501u.htm>

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Living Wage Research by David Neumark, Professor of Economics

An increasingly popular local policy option aimed at increasing incomes of poor families is mandating a wage floor higher than the market wage by legislating a “living wage.” Living wages are a recent innovation, but have spread rapidly. While Baltimore was the first city to pass such legislation, in 1994, approximately 50 cities and a number of other jurisdictions have followed suit since then.

Living wage laws have three central features. First, they impose a wage floor that is higher—and often much higher—than traditional federal and state minimum wages. Second, living wage levels are often explicitly pegged to the wage level needed for a family to reach the federal poverty line. Third, coverage by living wage ordinances is highly restricted. Frequently, cities impose wage floors only on companies under contract (generally including non-profits) with the city. Other cities also impose the wage floor on companies receiving business assistance from the city, in almost every case in addition to coverage of city contractors. Finally, a still smaller number of cities also impose the requirement on themselves and pay city employees a legislated living wage.

It is fair to say that the goal of living wages is to raise incomes of low-wage workers so as to reduce poverty. For example, the Economic Policy Institute, while noting that other anti-poverty tools are needed, argues that “the living wage is a crucial tool in the effort to end poverty.”¹ Thus, while there is generally no single measure with which the distributional effects of living wages can be unambiguously assessed, and while overall welfare

effects are much more complicated, evaluating the impact of living wages on poverty is a critical policy question.

While mandating higher wages for low-wage workers would appear to a non-economist as a natural way to fight poverty, there are two reasons why they may not help to achieve this goal. First, standard economic theory predicts that a mandated wage floor will discourage the use of the low-skilled labor, operating essentially as a tax on the use of such labor. Thus, whatever wage gains accrue to workers whose employment is unaffected must be offset against potential earnings losses for some workers. Second, mandated wage floors may ineffectively target low-income families. Broadly speaking, low-wage workers in the United States belong to two groups. The first is very young workers who have not yet acquired labor market skills, but who are likely to escape low-wage work as skills are acquired. The second is low-skilled adults who are likely to remain mired in low-wage work,² and who—as adults—are much more likely to be in poor families. To the extent that the gains from living wages accrue to low-wage adults and the losses fall on low-wage, non-poor teenagers, mandated wage floors may well reduce poverty. But there is no theoretical reason to believe that this outcome is more likely than the reverse, with concomitant adverse outcomes for low-income families. The distributional effects of mandated wage floors via living wages is a purely empirical question.

I have recently completed a monograph and a set of papers that analyze the effects of living wages laws. These studies examine the effects of living wages on the distribution of wages, on employment of low-skill workers, and on poverty, and also explore the “political economy” of living wages, seeking to understand the

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¹ See <http://www.epinet.org/Issueguides/livingwage/livingwagefaq.html>

² See William J. Carrington and Bruce C. Fallick, 2001, “Do Some Workers Have Minimum Wage Careers?,” *Monthly Labor Review*, May, pp. 17-27.

economic motivations of constituencies for living wages.³ These studies establish the effects of living wages by comparing changes in labor market outcomes in cities passing living wages with changes in cities that do not pass such laws.

The research begins by asking whether there is evidence that living wage laws lead to detectable increases in wages at the lower end of the wage or skill distribution. While there might appear that the answer must be in the affirmative, the evidence needs to be considered because of the low fraction of workers covered, and because of questions about enforcement.⁴ The evidence points to sizable effects of living wage ordinances on the wages of low-wage workers in the cities in which these ordinances are enacted. In fact, the magnitudes of the estimated wage effects are much larger than would be expected based on the apparently limited coverage of city contractors by most living wage laws. Additional analyses that help reconcile these large effects indicate that the effects are driven by cities in which the coverage of living wage laws is more broad—namely cities that impose living wages on employers receiving business assistance from the city.⁵

Of course the potential gains from higher wages may be offset by reduced employment opportunities. Overall, evidence of disemployment effects is weaker

than the evidence of positive wage effects. Nonetheless, disemployment effects tend to appear precisely for the type of living wage laws that generate positive wage effects—in particular, for low-skill workers covered by the broader laws that apply to employers receiving business assistance. Thus, as economic theory would lead us to expect, living wage laws present a trade-off between wages and employment.

This sets the stage for weighing these competing effects, in particular examining the effect of living wage laws on poverty in the urban areas in which they are implemented. Overall, the evidence suggests that living wages may be modestly successful at reducing urban poverty in the cities that have adopted such legislation. In particular, the probability that families have incomes below the poverty line falls in relative terms in cities that pass living wage laws. Paralleling the findings for wage and employment effects, the impact on poverty arises only for the broader living wage laws that cover employers receiving business assistance from cities.

In interpreting this evidence, it is important to bear in mind that while economic theory predicts that raising mandated wage floors will lead to some employment reductions, it makes no predictions whatsoever regarding the effects of living wages on the distribution of family incomes, or on poverty specifically. The distributional effects depend on both the magnitudes of the wage and employment effects, and on their incidence throughout the family income distribution.

Of course a finding that living wage laws reduce poverty does not necessarily imply that these laws increase economic welfare overall (or vice versa). Living wage laws, like all tax and transfer schemes, generally entail some inefficiencies that may reduce welfare relative to the most efficient such scheme. Finally, there is another reason to adopt a cautious view regarding living wages. As already noted, the effects of living wages appear only for broader living wage laws covering employers receiving business or financial assistance. The narrower contractor-only laws have no detectable effects. This raises a puzzle. Why, despite the anti-poverty rhetoric of living wage campaigns, do they often result in passage of narrow contractor-only laws that may cover a very small share of the workforce?

One hypothesis I have explored is that municipal unions work to pass living wage laws as a form of rent-seeking. Specifically, by forcing up the wage for contractor labor, living wage laws reduce (or eliminate)

³See: David Neumark, 2002, *How Living Wages Affect Low-Wage Workers and Low-Income Families* (San Francisco: Public Policy Institute of California); David Neumark and Scott Adams, “Do Living Wage Ordinances Reduce Urban Poverty?,” forthcoming in *Journal of Human Resources*; and David Neumark and Scott Adams, “Detecting Effects of Living Wage Laws,” forthcoming in *Industrial Relations*; David Neumark, 2001, “Living Wages: Protection For or Protection From Low-Wage Workers,” NBER Working Paper No. 8393.

⁴ For preliminary information on enforcement of living wage laws, see Richard Sander and Sean Lokey, 1998, “The Los Angeles Living Wage: The First Eighteen Months,” Mimeograph, UCLA and the Fair Housing Institute, Los Angeles.

⁵ For these business assistance living wage laws, the estimated elasticity of wages with respect to living wages in the bottom decile of the wage distribution is approximately 0.1, while for contractor-only living wage laws the estimated elasticity is indistinguishable from zero. While the 0.1 elasticity may suggest a small impact, it is an average wage increase experienced by low-wage workers, whereas the actual consequence would most likely be a much larger increase concentrated on a smaller number of workers directly affected by the living wage law.

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the incentive of cities to contract out work done by their members, and in so doing increase the bargaining power and raise the wages of municipal union workers. There is ample indirect evidence consistent with this, as municipal unions are strong supporters of living wage campaigns. As further evidence, I explored the impact of living wage laws on the wages of lower-wage unionized municipal workers (excluding teachers, police, and firefighters, who do not face competition from contractor labor). The results indicate that these workers' wages are indeed boosted by living wages. In contrast, living wages do not increase the wages other groups of workers whose wages—according to the rent-seeking hypothesis—should not be affected (such as other city workers, or teachers, police, and firefighters). Thus, even if living wage laws have some beneficial effects on the poor, this last evidence suggests that they may well be driven by motivations other than most effectively reducing urban poverty. While this does not imply that living wages cannot be an effective anti-poverty policy, it certainly suggests that they deserve closer scrutiny before strong conclusions are drawn regarding their effectiveness. ●

In Memoriam...

Leonard Rall, 89, Professor Emeritus of Economics died Aug. 20, 2002. Professor Rall joined the faculty in 1949 and retired in 1983. A memorial service was held for him on October 13th at Edgewood United Church in East Lansing. ●

Aloysius Dunaway Memorial Lectures...

October 24-25, 2002

James R. Markusen, Stanford Calderwood Professor of Economics, University of Colorado, Boulder, was this year's Dunaway Lecturer. He presented two seminars: "*Globalization Controversies: Myths, Facts, and the Role of US Policy*" a public seminar presented on October 24, 2002 in 109 So. Kedzie. On October 25th he presented "Developing Domestic Entrepreneurship and Growth through Imported Expertise" in the Koo Room in Marshall Hall.

Professor Markusen was raised in Minneapolis and earned his BA and PhD degrees in Economics from Boston College. His first position after graduate school was in Canada at the University of Western Ontario, interspersed with visiting appointments in Ghana, Australia, New Zealand, Germany, Israel, Sweden, and Spain. In 1990, he moved to the University of Colorado, Boulder and was head of department from 1991 until 1995.

Markusen's principal interests are in the field of international trade. His research for the last 10 years has concentrated on the location, production, and welfare effects of large-scale firms and multinational corporations. His recent book on the role of multinationals in the international economy has just been published by MIT Press.

Markusen served as a researcher and advisor during the mid 1980's for the McDonald Royal Commission in Canada, which laid the foundation for the US-Canada free-trade agreement. In the early 1990's, he worked with Mexican economists on the North American auto industry, attempting to estimate the effects of the (then) proposed North American free-trade area (NAFTA) on the location of production and employment within North America.

Currently, he is serving as an advisor to the Danish Ministry of Trade and Industry on a project to provide development assistance to the Baltic States (Estonia, Latvia, Lithuania). His views on globalization are conditioned by the experiences of his current graduate students, who hail from Belarus, Bulgaria, Uzbekistan, Kazakstan, China, Thailand, and Japan. ●



James R. Markusen

New Faculty Member...

Steven Haider joined the faculty at Michigan State University after spending four years at RAND in Santa Monica, California. While at RAND, Haider undertook a broad research agenda that focused on economic and policy issues of the poor and of the elderly. One strand of his work on the poor examined the impact of the 1996 national welfare law changes on the poor. His work on the elderly examines their retirement, savings, and consumption decision.

Haider is continuing to work on related topics at MSU. He has funding for the current year from



the National Institute of Child Health and Development to examine the resource allocation decisions in poor households and funding from the National Institute of Aging to examine issues of widow poverty.

At MSU, Haider is teaching upper-level undergraduate courses in econometrics and in poverty policy. He is looking forward to the opportunity of working with graduate students. ◆

Current Undergrad...

Aaron Kelly, a senior here at Michigan State University, has been a teaching assistant with the department since the summer of 2002. As an undergraduate teaching assistant he worked with four different sections of introductory macroeconomics in the summer, and is now assisting in two fall sections.

He first started working for Professor Norman Obst and former visiting faculty member Kirk Johnson, and they were able to provide him with the fundamentals needed to become an excellent teacher. Also guiding him along his way have been the kind words of advice from Chairperson Rowena



Pecchenino, who gave him this opportunity, as well as guidance from department staff and faculty.

Aaron became an economics major after taking a Law & Economics class his sophomore year. This was taught by Professor Larry Martin, for whom Aaron has also been a teaching assistant. The class not only inspired Aaron to become an economics major, but also

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Former Grad Student...

Alan Barrett
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Alan_Barrett@finance.gov.ie

completed his dissertation on the economics of immigration in 1994 and returned to Ireland to take up a job at the Economic and Social Research Institute. The ESRI is Ireland's largest institute of its kind and is partly funded through a grant from the Irish government. The balance of its funding is raised through commissioned research. At the ESRI, Alan has worked mainly on labour issues but has also been involved in work on environmental economics.

In addition to publishing papers from his dissertation in the *Journal of Population Economics*, *Economics Letters* and *Population Research and Policy Review*, Alan has published papers from his ESRI work in outlets such as the *Industrial and Labor Relations Review* (on training), the *British Journal of Industrial Relations* (on earnings inequality) and has a paper forthcoming in *Labour Economics* (on immigration impacts). In 1996, he co-authored a book on Irish environmental policy and has also written ESRI-published monographs on topics such as waste management and forestry.

In 1996, Alan was invited to become a Research Affiliate of the Labour Economics Programme of the London-based Centre for Economic Policy Research (CEPR). In 1998, he became a Research Fellow of the Institute for the Study of Labour (IZA) in Bonn, Germany. Both posi-



tions have provided opportunities to attend conferences of leading labour economists throughout Europe and to become involved in research networks. One output of these European-level interactions was the co-editing of an issue of the *Journal of Population Economics* in 2001.

Although based at the research institute, Alan has continued to teach on a part-time basis at Trinity College Dublin.

In October 2001, Alan began a two-year leave of absence from the ESRI which is being spent at the Finance Ministry in Dublin. He is mainly working on the long-term budgetary implications of population ageing.

Alan made a return trip to Michigan in 1999. Steve Woodbury invited Alan to visit the Upjohn Institute. After a few days in Kalamazoo, he was able to swing by East Lansing to meet some old friends. ◆

Current Undergrad (cont'd)...

helped him in his choice to want to further study the law and become a Professor. While he is still in the process of applying to law schools,

Aaron would like to attend an institution where he would be able to contribute to the law & economics program and bolster his

writing abilities so that he may someday become a prolific author. 

Congratulations to...

Faculty:

Richard Baillie, A J Pasant Chair of Economics and Finance, was elected a Fellow of the American Statistical Association.

Charles Ballard received an Outstanding Faculty Award from the MSU Resource Center for Persons with Disabilities in April of 2002.

Carl Davidson was invited to spend time at the University of Nottingham as a Visiting Scholar in 2003. The University of Nottingham's Leverhulme Center for Globalization and Economic Policy named him an External Research Fellow.

John Giles was appointed Research Fellow by the William Davidson Institute, University of Michigan. He is also currently a Research Associate at the Fairbank Center for East Asian Research, Harvard University and an Academy Scholar, Weatherhead Center for International Affairs, Harvard. John returns to MSU in January, 2003.

John M. Hunter, Professor Emeritus, was awarded a gold medal for civil merit (medalla de oro al mérito civil) by the Universidad de los Andes, Bogotá, Colombia in a ceremony in Bogotá on September 9th. Hunter served as the initial director of the Center of Development Studies (CEDE) at the Uniandes, 1957-59.

Mordechai (Max) Kreinin, University Distinguished Professor, inaugurated the *Eminent Lecture Series* at Florida International University with seven lectures on various topics. A conference to celebrate the 73rd birthday of Professor Kreinin and also his life-long contributions to international economics entitled "Empirical Modeling in International Trade: Essays in Honor of Max Kreinin," will be held at the Johns Hopkins University SAIS Rome Building in Washington DC, January 5-6, 2003.

Carl Liedholm was selected as the "Outstanding Faculty Member-2002" by the 2001/02 Senior Class of MSU.

Susan J. Linz was selected to participate in a joint international workshop funded by NSF on the *Use of Information Technologies in Modeling the Bulgarian Firm in Transition* (Svishtov, Bulgaria, May, 2002).

David Neumark's research on living wages was discussed in, to name a few, *Time Magazine*, *Business Week*, *USA Today*, *LA Times*, *New York Times (Web)*, *Christian Science Monitor*, and *Washington Post*.

Rowena Pecchenino was a Short-term Visitor at the Health Economics Research Unit (HERU), University of Aberdeen, May, 2002.

John Strauss was appointed to the Scientific Committee on Poverty and Population, International Union for the Scientific Study of Population (IUSSP). The five year purpose of this committee is to review evidence, generate reports and hopefully produce new evidence regarding the interrelationships between population growth and poverty.

John (Jay) Wilson was named Editor-in-Chief of the journal *International Tax and Public Finance*.

Stephen Woodbury was elected to the National Academy of Social Insurance.

Jeffrey M. Wooldridge, University Distinguished Professor, was the Rodgers Clark Invited Speaker in Economics at North Carolina State University in April, 2002.



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Congratulations to (cont'd)...

Graduate Students:

Onur Baser, \$3,000 travel fellowship to present work at 24th AHES Conference held in Sydney, Australia in July.

Rehim Kilic, \$6,000 Dissertation Completion Fellowship, awarded in January.

Ren Mu, \$3,500 travel fellowship in support of research at Chinese Academy of Social Science, in Beijing, China, last May.

Pinar Ozbay, \$800 travel fellowship to present paper at the Academy of International Business Meeting held in San Juan, Puerto Rico, in June.

Iva Petrova, \$1994 travel fellowship to attend Emerging Market Economies and European Integration Conference held in Eksjo, Sweden in June.

Chien-Ho Wang, \$525 travel fellowship to attend Midwest Econometric Study Group Annual Meeting held in Ohio, Columbus Ohio, in October.

Kyeongwon Yoo, \$800 travel fellowship to present paper at Northeast Universities Development Conference held in Williamston, Massachusetts in October.

Undergrads:

Jeremy Magruder was selected recipient of the annual *Edward A. and Eleanor B. Carlin Award* in April, 2002. This monetary award is given annually to the outstanding senior economics student. Jeremy is currently a graduate student in Economics at Yale University.

Douglas Connolly was presented the Wall Street Journal Student Achievement Award in April, 2002. He received a commemorative paperweight and a free one-year subscription to the Wall Street Journal. Doug is currently working in Philadelphia. ●

Department of Economics Reception at Annual AEA/ASSA Meetings

Grand Hyatt Washington Hotel (Room: Independence D)

Saturday, January 4, 2003, 6:00-8:00 p.m.

Please join us for hors d'oeuvres and cocktails before your evening out.

Questions or for more information, email lynchma@msu.edu

“Empirical Modeling in International Trade: Essays in Honor of Max Kreinin”

January 5-6, 2003

Johns Hopkins University SAIS Rome Building, Washington DC

The above conference to celebrate Max Kreinin's 73rd birthday and his life-long contributions to international economics will be held at the Johns Hopkins University SAIS Rome Building in Washington DC, January 5-6, 2003. For more information, contact alumni, Dr. Michael Plummer, at maxconference@yahoo.com.

Help Support Economics....

If you would like to make a tax deductible donation to our department, you can do so on line by going to <http://www.givingto.msu.edu/give.html>.

When filling out the form, in the field “Enter specific Fund Name,” write “Department of Economics”. Thank you for your support.